

Research and Development

Exemption for Research and Development Machinery and Equipment

The Tennessee General Assembly passed legislation (Public Chapter 504, 2015) that adds a new sales and use tax exemption for machinery, apparatus and equipment necessary to and primarily for research and development. The new exemption was effective July 1, 2015.

The exemption also includes any parts, appurtenances, accessories, installation, and labor for any research and development machinery and equipment.

The taxpayer is not required to be engaged in the business of fabricating or processing tangible personal property for resale in order to receive the exemption.

Definition of Research and Development

A new sales and use tax rule defines research and development. In order to qualify as research and development, the taxpayer's activities must have one of the following as its ultimate goal:

- basic research in a scientific field of endeavor
- advancing knowledge or technology in a scientific or technical field of endeavor
- development of a new product
- improvement of an existing product
- development of new uses of an existing product
- design and development of prototypes

Application for Research and Development Sales and Use Tax Exemption Certificate

A [new application for the exemption](#) with instructions is available on the Department's website. If the application is approved, the Department will send the taxpayer a certificate authorizing the taxpayer to make qualifying purchases for use in research and development exempt from sales and use tax.

Taxpayers must provide their vendors with a copy of the certificate or a fully completed [Streamlined Sales Tax Certificate of exemption](#), which must include the Research and Development Exemption Number from the certificate. A taxpayer that has been issued the Research and Development Sales and Use Tax Exemption Certificate and also a Tennessee Direct Pay Permit may provide its vendors with a copy of the Direct Pay Permit instead of the exemption certificate.

Claiming a Refund

A taxpayer who wants to claim a refund for tax paid on purchases of qualifying items used in research and development made on or after July 1, 2015, must use the following procedure:

- request a refund from the vendor and provide the vendor with the certificate of exemption the Department issued
- vendor must file a refund claim within three years from December 31 of the year in which the tax was remitted to the Department

- vendor must provide a copy of the taxpayer's certificate of exemption with the claim for refund
- vendor must refund or issue a credit memo for the collected tax to the taxpayer and submit documentation that the taxpayer has received a refund or credit for the tax paid on the qualifying research and development machinery purchases

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 67-6-102(44)(O), TENN. COMP. R. & REG. 1320-5-01-.128